The State of ERM in Canada.
A Benchmarking Study
The State of ERM in Canada: A Benchmarking Study
Susan Côté-Freeman

Preface
Prepared by The Conference Board of Canada in partnership with Chartered Professional Accountants of Canada and the Global Risk Institute in Financial Services.

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Chartered Professional Accountants of Canada (CPA Canada) is one of the largest national accounting organizations in the world, representing more than 210,000 members. Domestically, CPA Canada works cooperatively with the provincial and territorial CPA bodies who are charged with regulating the profession. Globally, it works together with the International Federation of Accountants and the Global Accounting Alliance to build a stronger accounting profession worldwide. CPA Canada, created through the unification of three legacy accounting designations, is a respected voice in the business, government, education, and non-profit sectors and champions sustainable economic growth and social development. The unified organization is celebrating five years of serving the profession, advocating for the public interest, and supporting the setting of accounting, auditing, and assurance standards. CPA Canada develops leading-edge thought leadership, research, guidance, and educational programs to ensure its members are equipped to drive success and shape the future. cpacanada.ca

About the Global Risk Institute in Financial Services

The Global Risk Institute in Financial Services (GRI) is the premier organization that defines thought leadership in risk management for the financial industry. It brings together leaders from industry, academia, and government to draw actionable insights on emerging risks globally.

GRI undertakes its mandate by engaging directly with its members and other key stakeholders to deliver leading-edge research, events, and education. The organization focuses on key emerging risks, opportunities, and best practices in enterprise risk management.

GRI was conceived in 2010 and formed in 2011, in the aftermath of the 2008 global financial crisis. The concept was to proactively identify global emerging risk issues and collaboratively develop risk management strategies in order to make the financial system more resilient—thereby enhancing its ability to support overall economic stability and growth. In doing so, GRI also plays an important role in sustaining risk management capabilities as a key source of competitive advantage for our stakeholders.

To learn more about GRI’s events, education programs, and research, please visit our website at https://globalriskinstitute.org/.
Background

The Conference Board of Canada, in partnership with Chartered Professional Accountants of Canada (CPA Canada) and the Global Risk Institute in Financial Services (GRI), has undertaken this new benchmarking study to assess the state of enterprise risk management (ERM) in Canadian organizations and to provide a baseline for risk management practices.

Based on a survey carried out in June to August 2018, this benchmarking study looked at various facets of the practice of ERM and its role within a broad cross-section of Canadian organizations. The aim of the study is to establish a benchmark that can serve as a reference for future surveys.

CPA Canada is one of the largest national accounting organizations in the world, representing more than 210,000 members. GRI is the leading Canadian organization providing thought leadership on emerging risks for financial services organizations.

By working together with CPA Canada and GRI, The Conference Board of Canada has produced a benchmarking report that we hope provides useful insights into the current practice of ERM in an environment that is increasingly uncertain and volatile.
Key Take-Aways

1. ERM programs are widely present in Canadian organizations. But, dedicated resources—whether human, technological, or financial—may not be sufficient for ERM to live up to its full potential.

2. ERM programs among Canadian organizations are relatively new and remain works-in-progress.

3. ERM has the solid backing of boards of directors, but is still not fully recognized at other levels within organizations.

4. Size matters. ERM is more developed and better resourced in larger organizations.

5. ERM has begun to establish meaningful links with strategic planning. However, it is not yet integrated with the full range of business processes.

6. ERM integration pays. In organizations with high levels of integration, ERM is more frequently seen as a key strategic tool and as an enabler of business success.

7. ERM’s role in risk mitigation is accepted. Yet its potential for leveraging the upside of risk and creating value remains underdeveloped.

8. ERM continues to rely on basic technology and is slow to adopt advanced technological solutions.

9. ERM practitioners show a higher level of concern for immediate risk priorities, such as reputational, operational, and financial risk. They appear to show less concern for longer-term threats such as environmental risk and geopolitical issues.

10. The link between ERM activities and compensation is weak, thus failing to incentivize management to fully embrace ERM.
Executive Summary
The State of ERM in Canada: A Benchmarking Study

This enterprise risk management (ERM) study aims to develop a more comprehensive view of ERM and create a national benchmark for Canadian organizations. The principal goal of the survey was to take the pulse of ERM in Canada to enhance the understanding of the extent to which participants from a cross-section of Canadian organizations and industry sectors have adopted and implemented ERM.

What have we learned? While some findings are consistent with other international benchmarking studies, others ought to give us pause if ERM is to take on the critical role it should play in Canadian businesses and organizations.

ERM Programs in Canada Have Some Enviable Strengths

Board support for ERM is firmly entrenched. However, management support for ERM is not as solid—pointing to a need for ERM teams to engage more internally with other business functions to demonstrate the value of ERM.

When it comes to ERM in Canadian organizations, size matters. Among organizations with more than 5,000 employees, 96 per cent have ERM programs, half of which are fully integrated across the organization. The situation is different among organizations with fewer than 500 employees, where a little over one-third still have no program at all.
This is not to say that all ERM programs should look alike or require the same level of sophistication. They should be adapted to fit the specific nature, size, and needs of organizations, ensuring all fundamental elements are in place.

ERM effectiveness can be enhanced by ensuring all employees understand and embrace their individual accountabilities for risk management, a message that needs to be reinforced by boards of directors and upper management.

Boards of directors in Canada play an important role with respect to ERM. Our survey shows that 69 per cent of respondents confirmed that their board of directors oversaw the organization’s risk management policies. However, 20 per cent of respondents indicated there was no board committee tasked specifically with risk oversight.

**Opportunities for ERM to Create Value**

If the role of ERM is essential for managing the negative consequences of risk in organizations, it should also gain recognition as an essential component of business processes, and one that enables business success.

Our survey shows that the integration of ERM with other business processes remains a work in progress. Only 39 per cent of respondents thought ERM was integrated to a great extent or a very great extent with their organization’s strategic planning process.

Among respondents, 66 per cent said that they had somewhat significant or very significant difficulty demonstrating the value of ERM: a perceived barrier that is on par with the perception that ERM creates more bureaucracy.

A closer look at organizations with high levels of ERM integration shows that greater integration is a goal worth striving for. (See “A Deeper Dive Into ERM Integration” on page 45.) Indeed, in organizations with high levels of integration, ERM is more often seen as capable of “enabling
business success,” playing a role beyond risk prevention. Furthermore, it appears that in organizations where it is highly integrated, ERM is perceived more often as “integrated with business strategy” and “fostering resilience and recovery from risk failures,” which remain aspirational objectives of ERM programs in many organizations.

Despite some challenges, ERM programs are becoming the norm. The majority (73 per cent) of the ERM leaders we surveyed say their organizations have some form of ERM program in place. But almost one-quarter (22 per cent) still have either no plans to implement an ERM program or have made no strides toward implementation after looking into establishing a program.

**Gaps Remain**

The survey shows that, with the exception of the largest organizations, dedicated ERM teams are very small. Forty per cent of respondents have less than one full-time equivalent fully dedicated to ERM. This puts in question the ability of ERM teams to evolve ERM programs and the influence these teams can wield.

ERM in the financial services and insurance sectors is better resourced, and its practices are more mature. Beyond the issue of resources, more exchange and dialogue between the financial sector and others whose practices are less mature could provide some useful lessons.

“Although ERM has made major strides in the past 10 years, it remains a developing practice in Canadian organizations.”
Although ERM has made major strides in the past 10 years, it remains a developing practice in Canadian organizations. There is no one-size-fits-all model and organizations tailor their programs to meet their specific needs.

Reputational risk is top of mind with Canadian risk leaders. In all, 84 per cent of respondents gave high or very high priority to reputational risk. Somewhat surprisingly, environmental and geopolitical risks register at the lowest end of the scale.

In spite of the increasing prevalence of technology in business, Canadian organizations have not yet embraced information technology to enable the ERM process. Fewer than 30 per cent of respondents use information systems to a great extent or a very great extent for given ERM processes.

Enterprise risk management has become more critical than ever in an environment where major threats—such as cyber events, privacy risks, and business disruption—are ever present. If ERM in Canada is to effectively protect organizations against risk, and also help them seize the opportunities for value creation that may come with a rapidly evolving risk landscape, the discipline will have to further evolve and mature.
Survey Methodology
To compile this national ERM Benchmarking study, The Conference Board of Canada, CPA Canada, and GRI conducted a survey among practitioners leading ERM in their organizations.

The online survey, which was conducted from June 4 to August 10, 2018, sought the opinions of professionals leading ERM in the Canadian operations of their organizations. The survey was specifically directed at the person in each organization who is in charge of ERM. We note, however, that 160 respondents completed the survey and six others answered some questions but not the entire survey, which leads to some variability in sample sizes. The number of respondents is specified in each chart. We also caution readers that, in some analyses by size and/or sector, respondent numbers are small and therefore results may not be broadly representative.

The survey aims to better understand the practice of ERM in Canada by probing respondents on the structure of their ERM programs, exploring the extent to which ERM is integrated into their business processes, and assessing ERM leaders’ perceptions of the strength and maturity of their respective programs.

Respondents were associated with companies drawn from the Financial Post 500/800 as well as members of the partner organizations’ constituencies. The surveyed organizations represent a cross-section of Canadian businesses and organizations—the vast majority of which are headquartered in Canada.
Respondent Demographics

- The survey sought the opinions of the professional leading ERM in the Canadian operations of his or her organization. Of the respondents, 22 per cent bear the title of chief risk officer, a category under which we have included senior executives who have responsibility for ERM. The second largest category of respondents (18 per cent) is chief financial officers.

- Fifty-nine per cent of respondents indicated their background as accounting, while another 40 per cent claimed a business background. This highlights the large role and influence of the accounting function in ERM.

- Responding organizations represent a cross-section of Canadian industry sectors and organizations, with 31 per cent of respondents belonging to the financial and insurance sector, followed by manufacturing (13 per cent) and the oil and gas sector (9 per cent).

- Ninety-three per cent of responding organizations are headquartered in Canada. While 35 per cent of respondent organizations are privately held, 24 per cent are publicly traded companies.

- Company sizes vary widely, with 42 per cent of the organizations having fewer than 500 employees.

- Roughly one-third (32 per cent) have estimated revenues of $1 billion or more, while only 18 per cent of respondents have estimated revenues of less than $20 million.

Please refer to Appendix A for more information on survey respondents.
ERM Programs in Canada

ERM Programs Are Becoming the Norm

Enterprise risk management and its holistic approach to managing risk in organizations is a relatively recent approach. The first risk department in a financial institution is said to have been established in the United States in the late 1980s, while more integrated risk approaches were introduced in the 1990s. But it is the corporate failures—such as those of Enron and WorldCom in the early 2000s, followed by major bank collapses that contributed to the 2008 financial crisis—that in turn led to a further expansion of enterprise risk management.

Given this relatively short history, it is worthwhile understanding the current status of the discipline and gaining insight into the profile of who manages ERM in Canadian organizations and how they do it. In many surveys focusing on ERM, Canadian data are often limited and subsumed into a broader North American data set. As a result,

ERM Programs in Canadian Organizations

- 73% of Canadian organizations surveyed have some form of ERM program in place.
- 22% have no plans to implement an ERM program or have made no strides toward implementation after starting to look into establishing a program.
- 54% of the financial and insurance sector firms have fully integrated programs—the highest of any sector.

Source: The Conference Board of Canada, CPA Canada, and GRI.

1 Dionne, Risk Management: History, Definition and Critique.
we believe the insights from this survey can fill a gap in the knowledge of ERM in the Canadian context. The principal goal of this benchmarking survey was to take the pulse of ERM in Canada. Therefore, a key question was the extent to which participating organizations have adopted ERM.

Thirty per cent of respondents have fully integrated ERM programs; meaning that their ERM program addresses risk across the entire organization. Another 43 per cent of respondents have a partially integrated program where ERM is practised at the corporate level and in one or more business units. With these two categories combined, we can safely say that a majority (73 per cent) of Canadian organizations surveyed have some form of ERM program in place. (See Chart 1.) Although it is not a direct comparison, a 2016 survey carried out by CPA Canada and Financial Executives International Canada (FEI Canada)\(^2\) showed that 80 per cent of the organizations had some level of program in place ranging from “robust and advanced” (15 per cent) to “somewhat developed” (37 per cent) and “minimally developed” (28 per cent). These numbers show some similarities and point to ERM programs having a significant foothold in Canadian organizations.

### Chart 1
**To What Extent Has Your Organization Adopted ERM?**
(n = 164; per cent)

<table>
<thead>
<tr>
<th>Category</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not have an ERM program and have no plans to look into this within the coming year</td>
<td>15</td>
</tr>
<tr>
<td>Have begun to investigate an ERM program, but have not advanced further toward implementation</td>
<td>7</td>
</tr>
<tr>
<td>Do not have an ERM program, but are planning to implement one in the next year</td>
<td>4</td>
</tr>
<tr>
<td>Have partially integrated ERM program (practised at corporate level or at one or more business units)</td>
<td>43</td>
</tr>
<tr>
<td>Have fully integrated ERM program to address risk across the organization (at corporate level and every business unit)</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: The Conference Board of Canada, CPA Canada, and GRI.

\(^2\) Chartered Professional Accountants Canada and FEI Canada, *The State of Enterprise Risk Management in Canada*.
Size Matters

Smaller organizations with fewer than 500 employees, which represents the largest group of respondents, range from having no program at all to having a fully integrated program. Among them, 34 per cent have partially integrated programs. But, almost the same number (32 per cent) have no program at all. Almost all organizations with more than 500 employees have advanced in some way toward implementing ERM. (See Chart 2.)

It is indicative that only one-third of the organizations in the middle-sized group have fully integrated programs, while almost half of the largest organizations have fully integrated programs. Respondents in the largest size category have almost all established programs that are partially or fully integrated.

Source: The Conference Board of Canada, CPA Canada, and GRI.

Chart 2
To What Extent Has Your Organization Adopted ERM? (by Size)
(n = 156; per cent)

- Do not have an ERM program and have no plans to look into this within the coming year
- Do not have an ERM program, but are planning to implement one in the next year
- Have begun to investigate an ERM program, but have not advanced further toward implementation
- Have partially integrated ERM program (practised at corporate level or at one or more business units)
- Have fully integrated ERM program across the organization (at corporate level and every business unit)

Source: The Conference Board of Canada, CPA Canada, and GRI.
Almost a quarter of surveyed organizations (22 per cent) have either no plans to implement an ERM program or have made no strides toward implementation after starting to look into establishing a program. These numbers are comparable to those stated in the 2016 CPA Canada/FEI Canada survey where 28 per cent of respondents had not implemented a framework.

Organizations in the financial and insurance sector are those where fully integrated programs are most prevalent, with 54 per cent of respondents in this group reporting such programs. This should come as no surprise given that this sector is highly regulated. Moreover, risk management in the insurance industry is a fundamental aspect of the core business model and customer value proposition. In spite of this, we note with some surprise that 8 per cent of respondents in this sector claim to have no ERM program at all. (See Chart 3.)

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**Chart 3**

*To What Extent Has Your Organization Adopted ERM? (by Sector)*

(per cent)

- **Orange**: Do not have an ERM program and have no plans to look into this within the coming year
- **Light Green**: Do not have an ERM program, but are planning to implement one in the next year
- **Dark Blue**: Have begun to investigate an ERM program, but have not advanced further toward implementation
- **Light Blue**: Have partially integrated ERM program (practised at corporate level or at one or more business units)
- **Dark Blue with Light Blue**: Have fully integrated ERM program across the organization (at corporate level and every business unit)

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Due to the number of respondents in these categories, results should be treated as indicative only.

Source: The Conference Board of Canada, CPA Canada, and GRI.
Comparing ERM in Canada to the World

To investigate the prevalence of ERM programs, we have deliberately used the scale and questions in the Risk and Insurance Management Society (RIMS) 2017 Enterprise Risk Management Benchmark Survey to allow comparisons with the RIMS global data set. Although these comparisons must be interpreted with caution, we nevertheless note that the percentage of respondents with fully integrated programs (30 per cent) was slightly higher among our respondents than in the RIMS global sample, which was only 24 per cent. While we can take some comfort from this comparison, the figures for Canada nevertheless highlight the need for improvement. In our survey, the percentage of firms that reported having no ERM programs, and no plans to adopt one in the coming years (15 per cent), is similar to the RIMS global sample, which was 12 per cent. (See Table 1.)

Table 1
Comparing ERM in Canada to the World
(per cent)

<table>
<thead>
<tr>
<th>To what extent has your organization adopted ERM?</th>
<th>RIMS 2017</th>
<th>CBoC/CPA Canada/GRI Benchmarking Study 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do not have an ERM program and have no plans to look into it within the coming year</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Do not have an ERM program but are planning to implement one in the next year</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Have begun to investigate an ERM program but have not advanced further toward implementation</td>
<td>13</td>
<td>7</td>
</tr>
<tr>
<td>Have partially integrated ERM program (practised at corporate level or at one or more business unit)</td>
<td>48</td>
<td>43</td>
</tr>
<tr>
<td>Have fully integrated program to address risk across the organization (practised at corporate level and within every business unit)</td>
<td>24</td>
<td>30</td>
</tr>
</tbody>
</table>

Canadian ERM Programs Are Still New

Confirming that ERM remains a relatively recent practice in Canada, 65 per cent of respondents indicated that the ERM function had existed for less than 10 years. Within this group, a majority of respondents have ERM functions that are less than five years old. Only 18 per cent of respondents had an ERM function for more than 10 years. (See Chart 4.)

Who’s In Charge?

Who leads the ERM function in Canadian organizations; that is, who makes resource allocation decisions when it comes to ERM? Roughly one-third of respondents (34 per cent) said a CRO or other senior-level risk executive leads the ERM process. Another 18 per cent hold the title of chief financial officer. Other ERM leaders occupy the position of chief auditor, chief executive officer, or a variety of other corporate roles. (See Chart 5.)

With 59 per cent of respondents indicating a background in accounting, the role of the profession in the implementation of ERM is worth noting. (See Appendix A, Chart 2.) A report by the International Federation of Accountants identified ways in which chief financial officers and the finance function can enhance their contributions to ERM by aligning risk management with value creation and preservation; driving insights...
and enabling decisions through risk modelling, data governance, and identification of risk appetite; and enabling integration by breaking down silos.\(^4\)

The range of titles held by respondent ERM leaders may be an indication that risk professionals operate at different hierarchical levels within organizations. In turn, this may translate into ERM leaders having limited levels of authority and influence within their organizations.

### Reporting to the Top

It is generally accepted that ERM programs should have high-level buy-in and commitment to serve their intended purpose. In addition to adequate resourcing, those who lead ERM in organizations should have the attention of decision-makers.

The reporting relationships of risk leaders in Canadian organizations vary considerably. ERM leaders report to both board and management. But, on the whole, they appear to have a reporting relationship to senior-level management. The largest group by far (47 per cent) reports directly to the chief executive officer. Another 21 per cent of respondents

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\(^4\) International Federation of Accountants, *Enabling the Accountant’s Role in Effective Enterprise Risk Management.*
report to the chief financial officer. While 13 per cent say they report to the board audit committee, only 7 per cent report to a dedicated risk committee of the board of directors. (See Chart 6.) Of those respondents who indicated they report to the CEO, only 6 per cent said they also reported to the full board or a committee of the board. This illustrates varying levels of authority among those leading the risk function in Canadian organizations. As well, this likely reflects the diversity of survey respondents with respect to type of organization, size, and industry sector.

These figures bear some consistency with a survey—the State of Enterprise Risk Management in Canada—conducted jointly by CPA Canada and FEI Canada in 2016. The survey, which polled financial executives, found that where the CRO position existed as leader of ERM, under half reported to the CEO. About 21 per cent reported to the CFO and 14 per cent to the board of directors. We note as well that 59 per cent of respondents (see Appendix A, Chart 2) indicated that their background is accounting, highlighting the prominent role of the accounting function in ERM.

Chart 6
To Whom Does the Person Who Leads the ERM Function in Your Organization Directly Report?
(n = 154; per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.

Chartered Professional Accountants Canada and FEI Canada, The State of Enterprise Risk Management in Canada.
A Solid Reporting Line to the Centre

While there is no prescribed way of structuring ERM in organizations, it is nevertheless interesting to examine the models used by organizations in Canada. Nearly 60 per cent of respondents described the ERM structure in their organization as “centralized” with the risk function having a solid line reporting to a central function. A little over 30 per cent of respondents operate on a partially decentralized model. Only 6 per cent of respondents operate on a fully decentralized model with no reporting lines to a central function. (See Chart 7.) In smaller organizations with fewer than 500 employees, the centralized model is as prominent as the partially decentralized model. (See Chart 8.)

A 2014 Deloitte survey\(^6\) of the global energy and resources industry reported that 65 per cent of the respondents had adopted a hybrid model for their ERM function. In this model, different business units perform their own risk activities—such as risk identification and analysis, and the implementation of control measures—with the support and coordination of a central risk function. This points to the high incidence of centralized risk functions in the sector, which aligns with the results of our survey.

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**Chart 7**

*How Is the ERM Function Structured in Your Organization?*

(n= 121; per cent)

- Centralized risk management function* 59
- Partially decentralized risk management to different business functions/departments** 33
- Fully decentralized risk management*** 6
- Other 2

---

*solid line reporting to central function
**solid reporting line to business units with dotted line to central function or solid line reporting to to central function with dotted line to business units
***reporting into business units with no central function

Source: The Conference Board of Canada, CPA Canada, and GRI.

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Discussions with practitioners and previous studies point to the fact that ERM teams are typically small, and our survey results confirm this. Forty per cent of respondents have less than one full-time equivalent in their teams who is fully dedicated to ERM, and 80 per cent of organizations have fewer than five full-time equivalents dedicated full-time to ERM. Only 19 per cent of ERM teams have more than five FTEs. These are concentrated in the finance and insurance sector. (See Chart 9.)
Further analysis showed that the dedicated risk function is, however, supported by additional personnel with part-time ERM responsibilities. Looking at organizations where staff spend a “meaningful” amount of their time (i.e., at least 20 per cent) contributing to the ERM function, around 40 per cent had one to five FTEs dedicating at least 20 per cent of their time or the equivalent of a day a week to ERM. On the other hand, a little over 10 per cent had more than 50 FTEs dedicating approximately the equivalent of a day a week to ERM. Once again, more generous resources supporting ERM are found in larger organizations, particularly in the mining and oil and finance and insurance sectors.

ERM Resources Are Not Growing

Our survey also reveals that ERM resourcing through budget and staffing has broadly remained the same from 2017 to 2018 for 59 per cent of respondents. Resources have increased in the same period among 37 per cent of respondents, whereas resources have diminished for only 4 per cent of respondents.

Looking to the near future, 70 per cent of respondents anticipate that resources will remain the same in 2019, compared with 27 per cent who anticipate that their resources will increase anywhere from 1 per cent to more than 25 per cent. Among the latter group expecting increased resources, respondents from the finance and industry sector dominate. This lack of perceived opportunity to grow the ERM function is concerning, as risk practitioners report low levels of integration into business strategy and overall business processes.
Respondents were also probed on the factors they believe would lead to an increase in staffing and budget for ERM. Although all factors were deemed to have some impact on resource levels, stakeholder expectations—such as those of customers, users, employees—were felt to have the most influence. Forty per cent of respondents said that stakeholder expectations would positively impact ERM resources to a great extent or a very great extent. The second factor (36 per cent) most likely to drive an increase in resources referred to changes in the risk environment resulting from business decisions such as acquisitions, expansions to new markets, or other similar events. Predictably, regulatory pressure ranked as a driver for increased resources as well. It was selected as a factor of great or very great influence by 35 per cent of respondents, while growth aligned with business strategy came in fourth place (32 per cent) as a top driver of increased resources. (See Chart 10.)

Chart 10
To What Extent Are the Following Factors Likely to Positively Influence Your Organization’s Resourcing (Budget and Staffing) of the ERM Function?
(n = 138; per cent)

Note: Totals may not add to 100 due to rounding.
Source: The Conference Board of Canada, CPA Canada, and GRI.
The Influence of the COSO and ISO Frameworks

A majority of respondents base their ERM approaches on proprietary frameworks. However, it is clear that the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and International Organization for Standardization (ISO) frameworks have considerable influence among all respondents. (See Chart 11.)

**Chart 11**

How Would You Rate the Influence of the Standards and Frameworks You Use on Your Organization’s Approach to ERM?

(per cent)

<table>
<thead>
<tr>
<th>Framework</th>
<th>Extremely influential</th>
<th>Very influential</th>
<th>Slightly influential</th>
<th>Somewhat influential</th>
<th>Not applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solvency II (n = 6)*</td>
<td>50</td>
<td>37</td>
<td>15</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Proprietary framework developed internally to suit the needs of our organization (n = 59)</td>
<td>46</td>
<td>62</td>
<td>15</td>
<td>14</td>
<td>3</td>
</tr>
<tr>
<td>Proprietary framework developed by a third party to suit the needs of our organization (n = 13)</td>
<td>53</td>
<td>38</td>
<td>27</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Basel Accords (n = 22)</td>
<td>47</td>
<td>39</td>
<td>27</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>ISO 31000: 2009 Risk Management (n = 49)</td>
<td>57</td>
<td>38</td>
<td>27</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>COSO Enterprise Risk Management—integrated framework (2004) (n = 40)</td>
<td>57</td>
<td>38</td>
<td>27</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>ISO 31000: 2018 Risk Management (n = 51)</td>
<td>55</td>
<td>21</td>
<td>6</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>COSO Enterprise Risk Management—integrating with strategy and performance (2017) (n = 53)</td>
<td>55</td>
<td>21</td>
<td>6</td>
<td>12</td>
<td>6</td>
</tr>
</tbody>
</table>

Note: Totals may not add to 100 due to rounding.

*The European Solvency II Directive for insurance firms appears quite influential for this small segment of six respondents. However, given this narrow and specific scope of application, it is not influential for Canadian firms in general.

Source: The Conference Board of Canada, CPA Canada, and GRI.
To make the case for ERM resources internally, ERM leaders must be able to demonstrate the benefits of ERM. In this context, quantitative data are often held as a convincing way of concretely illustrating the benefits of ERM to senior management and the board of directors. However, quantitative data demonstrating the value of ERM was selected by only 27 per cent of respondents as a factor that bolsters ERM resourcing to a great extent or very great extent. This factor came slightly ahead of qualitative data, which was rated in a similar way by 25 per cent of respondents.

The pace of technology was seen as one of the least influential factors for ERM resources. Almost one in four respondents thought it could influence resourcing to a great extent or very great extent.

 Boards of Directors Have Important Oversight Role
An essential condition for effective risk management is the oversight role played by the board or directors. As noted in a CPA Canada publication offering a Framework for Board Oversight of Enterprise Risk, “boards must oversee the risk management systems and processes and continuously review the associated outcomes and planning.”

Boards and Risk Oversight

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>69%</td>
<td>of respondents confirmed that their board of directors oversaw the organization’s risk management policies.</td>
</tr>
<tr>
<td>43%</td>
<td>said risk oversight is provided by the finance and audit committee.</td>
</tr>
<tr>
<td>26%</td>
<td>have a dedicated risk committee.</td>
</tr>
</tbody>
</table>

Source: The Conference Board of Canada, CPA Canada, and GRI.

7 Caldwell, A Framework for Board Oversight Enterprise Risk.
Asked which roles their boards played in regard to ERM, 69 per cent of respondents confirmed that their board of directors oversaw the organization’s risk management policies. The same percentage of respondents said that their board of directors took on the task of reviewing and understanding analyses of the organization’s risk with a particular focus on its principal risks. (See Chart 12.) Once again, this echoes the findings of the CPA Canada/FEI Canada 2016 report, where 72 per cent of respondents felt that the board of directors mostly or fully understood the risk and opportunities associated with the organization.

Another key oversight role for boards—ensuring appropriate and effective risk management and risk oversight systems—was selected by 68 per cent of respondents.

On the other hand, only 23 per cent of respondents said their board guided the identification of these risks.

Source: The Conference Board of Canada, CPA Canada, and GRI.
Reporting to the Board

Given the complex and dynamic risk environment that organizations are currently operating in, dedicated high-level attention to risk is essential. One of the markers of advanced risk approaches is the existence of a board-level committee tasked with risk oversight. The majority of respondents said their organization had a board committee that dealt with risk oversight. A little over a quarter of respondents (26 per cent) have a dedicated risk committee. And, in 43 per cent of respondents’ organizations, risk oversight is provided by the finance and audit committee. Twelve per cent said that another committee was responsible for risk oversight and 20 per cent indicated that there was no board oversight of risk. (See Chart 13.)

Chart 13

Does Your Organization Have a Dedicated Board Committee Tasked With Risk Oversight?
(n = 133; per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.

Once again, small organizations with fewer than 500 employees are most likely not to have a board committee overseeing risk. (See Chart 14.) Audit committees are the preferred risk oversight bodies for most organizations. The exception is the financial services sector where dedicated risk committees are more prevalent. (See Chart 15.)

This stands to reason as such board risk committees were mandated by the United States Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010\(^8\) for publicly traded, bank-holding companies with total assets of $10 billion or more. This would explain why,

\(^8\) Lester and Bovenzi, *The Dodd-Frank Act*. 
even in Canada, these dedicated committees are more prevalent in this sector and in larger publicly held organizations. Although there is no agreement that dedicated risk committees are the one and only formula for risk oversight, our data would indicate that there has not been a “trickle down” effect from the financial services sector to other sectors in Canada, and that dedicated risk committees exist mostly in sectors where they are mandated.

Chart 14
Does Your Organization Have a Dedicated Board Committee Tasked With Risk Oversight? (by Size)
(n = 128; per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.

Chart 15
Does Your Organization Have a Dedicated Board Committee Tasked With Risk Oversight? (by Sector)
(per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.
Reporting Frequencies

In response to a question on how often the person leading the ERM function provides formal risk presentations to those tasked with risk oversight, 36 per cent of respondents said they report annually to the full board of directors (see Chart 16), while 24 per cent report quarterly to the full board. However, a notable number, 25 per cent of respondents, indicated they do not report to the board. (See Table 2.)

Chart 16
How Frequently Does the ERM Function Leader Provide Formal Risk Presentations to Those Responsible for ERM Oversight? (Showing Top Response Only) (per cent)

| Source: The Conference Board of Canada, CPA Canada, and GRI. |
|---|---|
| Full board of directors (n = 140) | 36 | 48 |
| Board committee (n = 141) | 0 | 48 |
| CEO (n = 142) | 43 | 47 |
| Management committee (n = 142) | 0 | 47 |
| Other (n = 11) | 0 | 45 |

Some respondents noted that they made ad hoc reports rather than planned presentations at regular intervals. Others reported making additional presentations for specific risk types. Some stated presenting reports directly to the chief financial officer or compliance officer. All of this shows, once again, the diverse hierarchical arrangements for ERM in Canadian organizations.
Reporting Frequencies (cont’d)

With the exception of reports to the full board of directors, which are done annually with the highest frequency, reporting to ERM oversight committees or persons is most frequently done on a quarterly basis. (See Table 2.) This is consistent with practices recorded in the 2009 ERM survey report of The Conference Board of Canada. Given the rapidly evolving nature of the risk environment, it is worth questioning whether an annual presentation to the board of directors on ERM is sufficient. Ad hoc reporting in addition to the annual presentation may be useful in a highly dynamic environment.

Table 2
Reporting Frequencies
(per cent)

<table>
<thead>
<tr>
<th>How frequently does the person who leads the ERM function provide formal risk presentations to those responsible for ERM oversight?</th>
<th>Annually</th>
<th>Semi-annually</th>
<th>Quarterly</th>
<th>Monthly</th>
<th>Doesn’t report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full board of directors (n = 140)</td>
<td>36</td>
<td>16</td>
<td>24</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Board committee (n = 141)</td>
<td>13</td>
<td>18</td>
<td>48</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>CEO (n = 142)</td>
<td>10</td>
<td>15</td>
<td>43</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Management committee (n = 142)</td>
<td>8</td>
<td>9</td>
<td>47</td>
<td>16</td>
<td>23</td>
</tr>
<tr>
<td>Other (n = 11)</td>
<td>18</td>
<td>9</td>
<td>45</td>
<td>9</td>
<td>18</td>
</tr>
</tbody>
</table>

Note: Shaded numbers indicate highest frequencies.
Source: The Conference Board of Canada, CPA Canada, and GRI.
What’s On the Minds of ERM Leaders?

Bearing in mind that the risks faced by organizations do not occur in silos and that they are strongly interconnected, we nevertheless questioned respondents on the importance of various key risks. More than three-quarters of surveyed ERM leaders (84 per cent) gave high or very high priority to reputational risk. This result highlights the overarching importance of reputational risk, which is driven by the organization’s ability to manage many other key risks. (See charts 17 and 18.)

Reputational Risk Front and Centre

- 84% of ERM leaders gave high or very high priority to reputational risk.
- 40% of respondents gave high or very high priority to environmental risk.
- 30% of respondents gave high or very high priority to geopolitical risk.

Source: The Conference Board of Canada, CPA Canada, and GRI.

“Looking at industry sectors, we note that 78 per cent of the mining, oil, and gas companies in the sample give a high to very high priority to environmental issues.”
Chart 17
Which Level of Priority Does Your Organization Place on the Following Risk Categories? (n = 160; per cent)

Note: Totals may not add to 100 due to rounding.
Source: The Conference Board of Canada, CPA Canada, and GRI.

Chart 18
Which Level of Priority Does Your Organization Place on the Following Risk Categories? (Reputational Risk; by Size) (per cent)

Note: Totals may not add to 100 due to rounding.
Source: The Conference Board of Canada, CPA Canada, and GRI.
Reputational risk was closely followed by financial risk and operational risk, which were given high and very high priority by 81 per cent and 79 per cent of respondents, respectively. These priorities were followed by legal and regulatory risks (69 per cent).

It is also interesting to observe that in times of uncertainty and political unpredictability (e.g., with the renegotiation of important trade agreements and Brexit negotiations), geopolitical risk came in last with only 30 per cent of respondents giving this issue the highest ratings. Risk leaders seem to be less concerned about these larger systemic risks. This may stem from the fact that large systemic risks are difficult for individual ERM leaders to anticipate, let alone influence or mitigate. As a result, they focus on the risks they can influence more effectively.

Environmental risk did not rank among the highest priorities, with less than half of respondents giving this issue the highest ratings. However, the fact that 40 per cent of respondents ranked environmental risks as high or very high priority indicates this is a growing area of importance to companies globally. There appears to be recognition that environmental risks cannot be viewed in isolation of other connected risks, such as financial and operational risks. In its latest Global Risks Report, the World Economic Forum ranked extreme weather events, failure of climate change mitigation and adaptation, and major natural disasters as the top three risks by likelihood. This highlights the need for practitioners to shift their priorities and consider other significant emerging global risks.9

Climate change is seen by institutional investors and governments as an environmental risk with potentially significant economic consequences for companies. Globally, the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosure (TCFD) put climate risks and opportunities into the spotlight, galvanizing investors to engage with companies regarding their climate-related risk management and governance processes. In Canada, the Canadian Securities Administrators (CSA) performed a review of climate-related risks and issued its final report in April 2018.10 The report indicated an opportunity

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10 Canadian Securities Administrators, “Canadian Securities Regulators Report.”
for companies to provide enhanced disclosures around material risks associated with climate change. Further, the Canadian government established an Expert Panel on Sustainable Finance, with representation from large institutional investors. The investors focused on supporting the adoption of the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations in Canada and mainstreaming finance flows to support the transition to a low-carbon, climate-resilient economy. Taken together, these initiatives are beginning to place climate-related risks on the radar of risk managers, senior executives, and boards of directors at Canadian companies.

Looking at industry sectors, we note that 78 per cent of the mining, oil, and gas companies in the sample give a high to very high priority to environmental issues. (See Chart 19.) Given the momentum toward a low-carbon, climate-resilient economy, as envisioned by the 2015 Paris Agreement, and the push for enhanced climate-related disclosures by the investment community, it is likely that concerns of these emissions-intensive, trade-exposed sectors are an early indicator of the changing business landscape in Canada. These companies are recognizing that their reputational, financial, and operational risks are closely tied to their management of environmental risks, including climate change impacts.

“"There appears to be recognition that environmental risks cannot be viewed in isolation of other connected risks, such as financial and operational risks.”

ERM Integration: A Work in Progress

Integration is a goal pursued by many ERM leaders as an important means of leveraging the effectiveness of ERM. In particular, the integration of risk and strategy is often viewed as a necessary condition for ERM to foster greater business success. Yet, only 39 per cent of respondents thought ERM was integrated to a great extent or a very great extent with their organization’s strategic planning process. In contrast, only 10 per cent thought it was similarly integrated with sales and marketing. Almost half the respondents (48 per cent) said ERM played little to no role in the sales and marketing process. (See Chart 20.) Aberrant sales and marketing practices can often be a significant source of reputational risk. In light of the previously noted high level of concern expressed by respondents regarding reputational risk, ERM practitioners could clearly gain from developing closer links with these core business functions. For ERM to gain a stronger foothold in strategy and business operations, it is clear that ERM practitioners must turn their attention beyond the board and C-suite into other parts of the organization.

Note: Totals may not add to 100 due to rounding.
Source: The Conference Board of Canada, CPA Canada, and GRI.
Chart 20
To What Extent Is ERM Integrated With the Following Key Processes and Functions in Your Organization?
(n = 160; per cent)

Note: Totals may not add to 100 due to rounding.
Source: The Conference Board of Canada, CPA Canada, and GRI.

For ERM to gain a stronger foothold in strategy and business operations, it is clear that ERM practitioners must turn their attention beyond the board and C-suite into other parts of the organization.”
ERM Integration—Why Aim High?

Achieving the integration of ERM with other business processes is central to ERM. To explore this important dimension further, we segmented respondents based on their responses to questions focusing on the degree of integration of ERM and strategy in their organizations. This resulted in two groups: the high ERM integration organizations and the low ERM integration organizations. Further analysis of these groups revealed some interesting characteristics among high ERM integration organizations—a cluster that comprised a little over 40 per cent of the analyzed respondents.

In high ERM integration organizations:

- ERM is seen as a key strategic tool more frequently than in the low integration organizations.
- ERM and strategic planning are more solidly embedded.
- Respondents are more likely to qualify a number of ERM processes as strong, particularly those that are fundamental. This is not the case with respect to the more advanced processes, where they are qualified as developing.
- ERM is seen as a business enabler. This dimension was at the low end of the choices among survey respondents overall.
- The typical obstacles to ERM—such as lack of management buy-in and support—are not seen as an impediment to ERM to the same extent as by other respondents.
- The use of information technology has gained more traction, but more advanced forms of technology, such as AI, have yet to make any significant inroads in either group.

For a more detailed discussion of the differences between high and low ERM integration organizations, please see “A Deeper Dive Into ERM Integration,” on page 45.

Source: The Conference Board of Canada, CPA Canada, and GRI.
ERM Plays Limited Strategic Role

Delving deeper into the connection between ERM and strategy, we note that 53 per cent of respondents indicated that the board of directors was engaged to a great extent or a very great extent in discussions of key risks for the organization. Furthermore, 86 per cent said that ERM was integrated to various extents in the strategic planning process, while only 14 per cent said that it played no role at all. (See Chart 21.) This points to an evolution of the earlier role of risk management that was aimed solely at loss prevention, risk mitigation, and risk avoidance toward more advanced ERM frameworks that integrate risk management in the overall strategic management processes of organizations.

Chart 21
To What Extent Has Your Organization Integrated ERM and Strategy?
(n = 160; per cent)

In spite of this strong connection between ERM and strategy, only 6 per cent of respondents indicated that ERM is perceived to a very great extent as a strategic tool for the organization. Alarmingly, 44 per cent of respondents thought it was perceived as playing a limited strategic role or no role at all in the organization. As these results show, ERM has links with strategy among respondents, but it remains far from
occupying the central position that many believe it should. This presents lost opportunities for organizations that should move beyond the identification and mitigation of risks to unleash ERM’s potential to anticipate opportunities for innovation and transformation in a rapidly changing environment.

### Strategic Role of ERM Far From Recognized

- 84% of respondents said that ERM was integrated to various extents into the strategic planning process.
- 6% of respondents indicated that ERM is perceived to a very great extent as a strategic tool for the organization.

*Source: The Conference Board of Canada, CPA Canada, and GRI.*

### ERM and Management Compensation: The Missing Link

Recent high-profile scandals have shown that incentive programs can lead to questionable behaviour on the part of employees. According to the Poole School of Management at North Carolina State University, the United States financial services industry “has surpassed all other industries when assessing their incentive compensation plan risks.”

However, our research shows that, in Canada, the practice of linking management compensation and risk remains limited. Only 10 per cent of respondents said that risk management activities were to a great extent or a very great extent an explicit component in determining management performance compensation. (See Chart 22.) This practice is more prevalent in the financial sector. Yet, only 16 per cent of respondents in the finance and insurance sectors said that risk activities were a factor to a similar extent. In most industry sectors, there is a striking lack of linkage between risk and compensation. Although the

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12 NC State Poole School of Management, *Riskiness of Incentive Compensation Plans.*
sector’s representation is small, it is interesting to note that, in the utilities sector, six out of eight respondents mentioned there was no connection at all between risk and compensation. (See Chart 23.)

**Chart 22**
To What Extent Are Risk Management Activities an Explicit Component in Determining Management Performance Compensation?
(n = 160; per cent)

<table>
<thead>
<tr>
<th></th>
<th>Not at all</th>
<th>To a small extent</th>
<th>Somewhat</th>
<th>To a great extent</th>
<th>To a very great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>43</td>
<td>27</td>
<td>21</td>
<td>8</td>
<td>2</td>
</tr>
</tbody>
</table>

Source: The Conference Board of Canada, CPA Canada, and GRI.

**Chart 23**
To What Extent Are Risk Management Activities an Explicit Component in Determining Management Performance Compensation? (by Sector)
(per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.
Asking which practices were part of their organization’s performance evaluation framework, 38 per cent of respondents said that individual key performance indicators related to risk were developed for the purposes of employee appraisals. Sixteen per cent indicated that senior risk executives signed off on the organization’s incentive plan. However, only 10 per cent stated that compensation policies and procedures were explicitly linked to ERM activities. Compensation clawbacks for excessive risk-taking were mentioned by only 11 per cent of respondents. (See Chart 24.) It is clear from the responses that risk management is not a major focus of the evaluation and compensation practices of many organizations. As other insights of the survey have pointed out, boards are increasingly taking risk management seriously. However, below the board level, this is not happening to the same extent. Closer linkages between risk and management appraisal could help narrow this gap.

“\It is clear from the responses that risk management is not a major focus of the evaluation and compensation practices of many organizations.”
Strength of ERM Activities in Canada: A Mixed Picture

Looking at the self-assessed strength of selected ERM activities contributing to the overall strength of the respondents’ ERM programs, a mixed picture emerges. With the exception of the adoption of ERM processes throughout the organization, at least 50 per cent of respondents stated that ERM activities were adequate or strong. (See Chart 25.)

Although any comparisons should be made with caution given the differing samples, it is worth noting that the results from an earlier CPA Canada/FEI Canada survey found similar assessment of the robustness of ERM programs. The CPA Canada/FEI Canada survey revealed that 15 per cent of the surveyed organizations felt they had a program ranging from robust to advanced, although 37 per cent qualified their programs as somewhat developed.
Board-level commitment to risk management was seen as the strongest feature of ERM programs, with 61 per cent of respondents qualifying this activity as *strong*. Risk reporting to the board was also seen as a *strong* component of ERM programs by 42 per cent of respondents. This demonstrates, once again, that ERM is a well-established priority for Canadian boards. On the weaker side of the equation, however, only 20 per cent of respondents believed that the integration of ERM across their organization was *strong*, while 47 per cent of respondents said this dimension was still *developing*.

Sixty per cent of respondents felt resources supporting ERM within the organization were either *adequate* or *strong*. A low 21 per cent of respondents felt their monitoring and improvement process for ERM was *strong*, with 38 per cent qualifying this process as *developing*.

Given the low level of integration of ERM across organizations, Canadian boards, which are clearly committed to their risk oversight role, should be concerned about this finding.

### Chart 25

**How Would You Describe the Strength of Your Organization's ERM Activities? (N.A.s Excluded)**

(per cent)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Developing</th>
<th>Adequate</th>
<th>Strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board-level commitment to risk management (n = 135)</td>
<td>17</td>
<td>21</td>
<td>61</td>
</tr>
<tr>
<td>Risk reporting to the board (n = 139)</td>
<td>24</td>
<td>33</td>
<td>42</td>
</tr>
<tr>
<td>Processes for risk identification and communication (n = 141)</td>
<td>35</td>
<td>35</td>
<td>42</td>
</tr>
<tr>
<td>Process for continuing monitoring and improvement of ERM (n = 141)</td>
<td>38</td>
<td>41</td>
<td>21</td>
</tr>
<tr>
<td>Alignment of risk management and strategy (n = 145)</td>
<td>39</td>
<td>41</td>
<td>20</td>
</tr>
<tr>
<td>Resources to support ERM within the organization (n = 140)</td>
<td>40</td>
<td>43</td>
<td>17</td>
</tr>
<tr>
<td>Integration of risk processes into existing management processes (n = 142)</td>
<td>47</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>Review of risk assessment versus outcomes (n = 141)</td>
<td>50</td>
<td>34</td>
<td>16</td>
</tr>
<tr>
<td>Adoption of ERM practices throughout the organization (n = 140)</td>
<td>55</td>
<td>30</td>
<td>15</td>
</tr>
</tbody>
</table>

Note: Totals may not add to 100 due to rounding.

Source: The Conference Board of Canada, CPA Canada, and GRI.
Evaluating the ERM Function: Sticking to the Basics

Respondents were asked which factors were considered in evaluating the performance of their ERM programs. A prime concern for ERM leaders is “acting on identified important and relevant risks,” which was selected by 72 per cent of respondents. This choice was followed in second place by “anticipating and managing emerging risks” (68 per cent), and “linking risk management with corporate strategy and planning” (62 per cent) in third spot. (See Chart 26.)

These results highlight, not surprisingly, that ERM programs are expected to effectively tackle key risks. The emphasis on emerging risks as a measure of the effectiveness of ERM programs does not come as a surprise in a business environment that is increasingly marked by unpredictability and disruption.

Chart 26
Which of the Following Factors Are Considered in Evaluating the Performance of the ERM Function?
(n = 153; per cent)

In response to a question on which factors are most important in evaluating the performance of the ERM function, more than three-quarters (76 per cent) of respondents said they saw the clear articulation of risk appetites and tolerances as very important. About the same proportion of respondents felt that acting on important and relevant...
risks was very important, followed by “instilling awareness of risk as a decision-making discipline.” “Linking risk management with corporate strategy” was considered very important by 61 per cent of respondents. “Fewer surprises” or “smaller impacts of potential risk” were seen as very important factors by just over 40 per cent of respondents. (See Chart 27.) Once again, the linkage of risk management and corporate strategy occupies centre stage.

![Chart 27](chart.png)

Chart 27
How Important Are the Following Factors in the Performance Evaluation of the ERM Function? (per cent)

Note: Totals may not add to 100 due to rounding.
Source: The Conference Board of Canada, CPA Canada, and GRI.

**ERM Slow to Embrace Technology**

Much has been written about the power of technology to enable more efficient ERM processes. Whether it is the use of software platforms for aggregating risk, harnessing the power of data analytics, or artificial intelligence for more effective risk management, the use of more advanced technology is seen by many as a positive force in ERM. However, it appears that Canadian organizations have not yet embraced technology for the ERM process. Data collection is the ERM activity where technology is used most frequently. But even then, only 28 per cent of respondents said it enables this activity to a great or
very great extent. Risk treatment is the process least likely to be enabled by information systems, with only 20 per cent of respondents using these systems to a great or very great extent for this purpose. (See Chart 28.)

The implication is that in many organizations, ERM data continue to rely on basic technology and manual data entry. The potential offered by big data is still far off for ERM in Canada.

**Chart 28**
To What Extent Are ERM Processes in Your Organization Enabled by Information Systems?  
(n = 154; per cent)

<table>
<thead>
<tr>
<th>Process</th>
<th>Not at all</th>
<th>To a small extent</th>
<th>Somewhat</th>
<th>To a very great extent</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data collection</td>
<td>24</td>
<td>22</td>
<td>25</td>
<td>21</td>
<td>7</td>
</tr>
<tr>
<td>Data storage</td>
<td>23</td>
<td>23</td>
<td>29</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>Risk monitoring</td>
<td>21</td>
<td>26</td>
<td>29</td>
<td>18</td>
<td>7</td>
</tr>
<tr>
<td>Risk reporting</td>
<td>19</td>
<td>29</td>
<td>27</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td>Risk treatment</td>
<td>27</td>
<td>30</td>
<td>23</td>
<td>18</td>
<td>2</td>
</tr>
</tbody>
</table>

Note: Totals may not add to 100 due to rounding.  
Source: The Conference Board of Canada, CPA Canada, and GRI.

**Chart 29**
To What Extent Are ERM Processes in Your Organization Enabled by Information Systems? (Data Collection; by Size)  
(per cent)

<table>
<thead>
<tr>
<th>Group</th>
<th>Not at all</th>
<th>To a small extent</th>
<th>Somewhat</th>
<th>To a very great extent</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fewer than 500 employees (n = 60)</td>
<td>27</td>
<td>25</td>
<td>25</td>
<td>15</td>
<td>8</td>
</tr>
<tr>
<td>500–5,000 employees (n = 56)</td>
<td>27</td>
<td>27</td>
<td>21</td>
<td>23</td>
<td>2</td>
</tr>
<tr>
<td>More than 5,000 employees (n = 30)</td>
<td>7</td>
<td>10</td>
<td>33</td>
<td>33</td>
<td>17</td>
</tr>
</tbody>
</table>

Note: Totals may not add to 100 due to rounding.  
Source: The Conference Board of Canada, CPA Canada, and GRI.
Chart 30
To What Extent Are ERM Processes in Your Organization Enabled by Information Systems? (Data Collection; by Sector)
(per cent)

Note: Totals may not add to 100 due to rounding.
Source: The Conference Board of Canada, CPA Canada, and GRI.

Given the relative lack of technology adoption for ERM, it is perhaps not surprising that more cutting-edge tools are not yet used or envisaged in the practice of ERM. Seventy-four per cent of respondents state that they have no plans to make use of artificial intelligence (AI) for ERM in the coming year. About one-fifth of respondents has started investigating AI but not pushed it further. As for data visualization, 12 per cent of respondents will start using it in the coming year. But 60 per cent have no plans to take advantage of these techniques and only 12 per cent of respondents have started making use of advanced analytics. (See Chart 31.)

“...The implication is that ERM data rely on basic technology and manual data entry. The potential offered by big data is still far off for ERM in Canada.”
Right Tone at the Top for ERM
Survey results show solid board commitment to ERM. Therefore, it is not a surprise that 63 per cent of respondents confirm that a strong and unequivocal tone from the top is present in their organization—either to a great or very great extent. (See Chart 32.) This is highly encouraging given the importance of top-level support in fostering a strong risk culture. But ERM still appears far from being perceived as a creator of value for organizations. Indeed, only 20 per cent of respondents reported that ERM is perceived as enabling business in their organization to a great or a very great extent. This result shows clearly that ERM continues to be perceived as a means of risk mitigation rather than a key contributor to business success. ERM practitioners should leverage the strong board support for ERM to raise its profile within the organization to allow for the profession to advance.
ERM Implementation Still Facing Some Barriers

In many respects, ERM in Canada is still fighting to prove its usefulness. On the positive side, respondents confirmed that boards stand behind ERM. Indeed only 11 per cent of respondents said that lack of buy-in from the board of directors or the audit committee is a very significant barrier to ERM implementation. However, half of the respondents viewed lack of management support as a somewhat significant or very significant barrier to ERM. This points to a lack of alignment between the support of boards and that of management for ERM. (See Chart 33.)

Given the small sizes of dedicated ERM teams, it is not surprising that 61 per cent of respondents flagged a lack of human resources as a somewhat significant or very significant barrier to ERM implementation. This is true regardless of size or sector, leading us to conclude that ERM practitioners could amplify their impact if they had bigger teams to drive risk practices deeper into their organizations. (See charts 34 and 35.)
Chart 33
How Significant Are the Following Barriers to the Effective Implementation of ERM in Your Organization?
(n = 152; per cent)

Note: Totals may not add to 100 due to rounding.
Source: The Conference Board of Canada, CPA Canada, and GRI.

Chart 34
How Significant Are the Following Barriers to the Effective Implementation of ERM in Your Organization?
(Lack of Human Resources to Support ERM Activities; by Size)
(per cent)

Note: Totals may not add to 100 due to rounding.
Source: The Conference Board of Canada, CPA Canada, and GRI.
Lack of financial resources was not seen as a barrier to implementation to the same degree, with a little over half (51 per cent) of the respondents stating that it was not at all significant.

The same number of respondents (51 per cent) said that difficulty demonstrating the value of ERM was somewhat significant—a perceived barrier that is on par with the perception that ERM creates more bureaucracy.

A slightly smaller percentage of respondents (47 per cent) said that the lack of effective technology was somewhat significant in creating a barrier to ERM implementation. This would support the findings of this survey in demonstrating the low levels of adoption of information technology for the purposes of ERM. About the same number of respondents felt that risk management, alarmingly, was perceived as a somewhat significant impediment to business.

Lack of human resources may be linked to the lack of management buy-in and support, which appears more acute in the mid-size group of organizations (500 to 5,000 employees) where 57 per cent
of respondents considered it either somewhat significant or very significant. (See Chart 36.) In the financial and insurance sectors (the largest industry group represented in our sample), 50 per cent of the respondents had the same level of concern. (See Chart 37.)

Chart 36

How Significant Are the Following Barriers to the Effective Implementation of ERM in Your Organization? (Lack of Management Buy-In and Support; by Size) (per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.

Chart 37

How Significant Are the Following Barriers to the Effective Implementation of ERM in Your Organization? (Lack of Management Buy-In and Support; by Sector) (per cent)

Note: Totals may not add to 100 due to rounding.
Source: The Conference Board of Canada, CPA Canada, and GRI.
SPECIAL SECTION

A Deeper Dive Into ERM Integration
Greater integration of ERM with a broad range of business processes is one of the characteristics of more mature ERM programs. The benefits are summarized in a 2015 study\(^1\) that concluded, “Firms that have successfully integrated the ERM process into both their strategic activities and everyday practices display superior ability in uncovering risk dependencies and relationships across the entire enterprise and as a consequence enhanced [firm] value when undertaking the ERM maturity journey.”

Given the importance of ERM integration, we delved deeper into this aspect of the data. The data were segmented using a statistical technique called “cluster analysis”\(^2\) to differentiate organizations. The separation was based on the extent to which the organizations had integrated ERM and strategy. We looked at three elements to determine the degree of integration:

1. The extent to which ERM was integrated with the strategic planning process.
2. Whether ERM was viewed as a key strategic tool.
3. The engagement of the board of directors in explicit discussions about key risks to the organization.

The results of the analysis revealed two distinct groups or clusters among respondents representing different levels of ERM integration. The groups consisted of organizations with a high level of integration of ERM and strategy (42 per cent); and organizations with a low level of integration (58 per cent). (See Chart 38.)

\(^1\) Beals, Fox, and Minsky, *Why a Mature ERM Effort Is Worth the Investment*.

\(^2\) Cluster analysis: The technique is widely used in social sciences and market research, primarily to subdivide a survey sample into two or more groups (or clusters). Thus, members belonging to a single cluster are very similar to each other and very different from members contained in other clusters. In the case of the questions relating to ERM strategy integration, the technique was employed to exploit the similarities and differences among organizations, based on the extent to which they believe their organization’s ERM is integrated with strategy.
The variation in integration level can be clearly seen between the two cluster groups when examined across the areas used to differentiate them in the analysis. (Rated elements were presented with a five-point scale, where 1 meant “not at all” and 5 meant “to a very great extent.”) When asked to what extent ERM and strategy were integrated across three key areas, organizations with a high level of integration of ERM and strategy had mean scores that were, on average, significantly higher than organizations with low level integration. (See Chart 39.)
The area representing the greatest difference between the two cluster groups related to the perception of ERM as a key strategic tool. Respondents from organizations with a higher level of ERM integration had ratings that were, once again, much greater than those working for low ERM integration organizations.

A look at the composition of the cluster groups from a size and sector perspective shows that larger organizations achieve higher levels of integration, demonstrating that larger organizations tend to have more mature ERM programs. (See charts 40 and 41.)

With respect to sector, the mining, oil, and gas sectors have the highest representation in the high ERM integration category, followed by the financial and insurance sectors. Organizations in these sectors also tend to be large, publicly traded organizations operating in highly regulated sectors. This, no doubt, contributes to greater levels of ERM integration.

**Chart 40**

*Cluster Group by Size*

(n = 160; per cent)

<table>
<thead>
<tr>
<th>Cluster Group by Size</th>
<th>Low integration</th>
<th>High integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fewer than 500 employees (n = 63)</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>500–5,000 employees (n = 59)</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td>More than 5,000 employees (n = 30)</td>
<td>37</td>
<td>63</td>
</tr>
</tbody>
</table>

Source: The Conference Board of Canada, CPA Canada, and GRI.
When we further analyzed the differences between the mean scores of the two groups in relation to various themes in the survey, some interesting findings emerged. We took a closer look at the integration of ERM with various business processes, the self-assessed strength of ERM activities, risk culture, barriers to ERM, and the use of technology. This has resulted in the following observations.

**High Integration Leads to Closer Links Between ERM and Strategy**

The integration of ERM with the strategic planning process is an important goal for risk practitioners. Among overall survey respondents, 39 per cent thought ERM was integrated to a great extent or a very great extent with strategic planning. (See Chart 42.) Interestingly, we saw that the greatest gap between the high and low integration groups could be observed with respect to strategic planning. This would indicate that, in the high integration organizations, ERM and strategic planning are more solidly embedded. But, this embeddedness remains a work in progress in the low integration organizations. The gap between the high

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3 The higher the difference between the means across these various indicators, the higher the separation between organizations with high and low integration.
and low integration groups lessens with respect to activities such as marketing and sales and technology. This demonstrates that both groups are still striving to integrate ERM in a number of business processes.

Chart 42
Profiles of Low Versus High ERM Integration Organizations Across Key Processes and Functions
(n = 160; mean scores in descending percentage-difference order)

<table>
<thead>
<tr>
<th>Process</th>
<th>Low ERM integration orgs. (left)</th>
<th>High ERM integration orgs. (left)</th>
<th>Percentage difference (mean score, right)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic planning</td>
<td>2.7</td>
<td>3.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Audit</td>
<td>3.9</td>
<td>3.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Product development</td>
<td>4.2</td>
<td>3.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Business/budget planning</td>
<td>3.7</td>
<td>2.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Ethics and business conduct</td>
<td>3.0</td>
<td>2.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Legal and compliance</td>
<td>4.1</td>
<td>3.7</td>
<td>0.4</td>
</tr>
<tr>
<td>Governance</td>
<td>2.5</td>
<td>2.8</td>
<td>0.3</td>
</tr>
<tr>
<td>HR and performance management</td>
<td>3.4</td>
<td>3.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Mergers and acquisitions</td>
<td>3.1</td>
<td>3.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Communication/public relations</td>
<td>4.1</td>
<td>3.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Loss control</td>
<td>2.3</td>
<td>2.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Capital management</td>
<td>3.0</td>
<td>2.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Information technology</td>
<td>3.8</td>
<td>3.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Insurance and hedging</td>
<td>3.6</td>
<td>3.0</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: The Conference Board of Canada, CPA Canada, and GRI.

High Integration and Stronger ERM Performance Go Hand in Hand

In an effort to further contrast high and low ERM integration organizations, we looked at those organizations that assessed their performance as strong in relation to key ERM processes. (See Chart 43.) The largest differences between the high and low integration groups appear in processes that are fundamentals of ERM. These include reporting to the board, board-level commitment to risk management, and risk identification and communication. This shows that the higher integration organizations are more likely to assess their ERM performance as strong. In the low ERM integration group,
only 29 per cent of respondents (see Chart 43) assessed board-level commitment to risk management as strong. As shown earlier in Chart 25, this falls well below the 61 per cent of respondents in the overall survey who qualified board support as strong.

A similar analysis was carried out for organizations that qualified key ERM processes as developing. (See Chart 44.) Results illustrate that even in the high ERM integration group, a number of ERM processes are only still developing. This is particularly noteworthy with respect to the more advanced features of ERM programs—including the review of risk assessments versus outcomes, the adoption of ERM throughout the organization, and the integration of risk processes into existing management processes. Thus, there is scope for improvement, even in the high ERM integration group.

Chart 43
High and Low ERM Integration Organizations Reporting Strong Performance Profiles Across ERM Activities (Including N.A.s)
(per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.
ERM Seen as Business Enabler

When analyzed against risk culture, significant differences arose between the high and low integration organizations. What we saw was an inversion of the selection of elements of risk culture in the group with high ERM integration, in contrast to the choices of the overall group. (See Chart 45.) As shown earlier in Chart 32, the respondents in the high ERM integration group appear to see ERM as a business enabler. However, this dimension was at the low end of the choices in the overall sample. Criteria such as “tone at top” appear much less important in the high ERM integration group where ERM is perceived more strongly.
as a business enabler. It is also perceived more often as “integrated with business strategy” and “fostering resilience and recovery from risk failures.” These are all characteristics that are often cited as the ultimate objectives of ERM programs.

Chart 45
Extent to Which Risk Culture Characteristics Are Present in Low and High ERM Integration Organizations
(n = 154; mean scores in descending percentage difference order)

Source: The Conference Board of Canada, CPA Canada, and GRI.

 Fewer Barriers to ERM in High Integration Organizations

Not surprisingly, organizations on the high end of the ERM integration scale see the typical barriers to ERM as less of an impediment. Basic hurdles such as “lack of management buy-in and support” were noted by 50 per cent of survey respondents overall, as a somewhat significant or very significant barrier. (See Chart 33.) But these obstacles did not resonate to the same extent among the high ERM integration group. (See Chart 46.)
Use of Automated Tools Remains Low

Overall, survey results indicate a relatively low use of automated tools for improving ERM processes, irrespective of the level of ERM integration. However, high ERM integration organizations reported a greater use of automated tools—such as advanced analytics and data visualization—compared with those exhibiting low ERM integration. (See Chart 47.)

Interest, albeit modest, is evident for both advanced analytics and data visualization, as respondents from both cluster groups indicated that their organizations plan to start using these tools, to some extent, in the coming year. But, except for advanced analytics, the number of respondents who have no plans to use automated tools is quite high,
regardless of whether they belong to the high or low ERM integration organizations. In the case of artificial intelligence, organizations have not advanced beyond exploring the technology for its potential applications to enhance ERM processes. This raises an important point: in spite of its potential for ERM, artificial intelligence remains, for the time being, a bridge too far for ERM practitioners. The more widespread use of artificial intelligence and technology to advance ERM will require not only a financial investment but also investments in the skills of ERM practitioners. Indeed, current ERM practitioners may not have the technical skills required to deal with data for the purposes of analysis via artificial intelligence. A transition to data-driven ERM may require new knowledge and skills on the part of ERM practitioners.

Chart 47
Use of Automated Tools to Enhance ERM Processes by Low Versus High ERM Integration Organizations
(n = 154; per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.
Conclusion

ERM programs are relatively recent in Canada but they are becoming the norm, which is good news. ERM, however, continues to be seen primarily as a risk mitigation framework and struggles to demonstrate its true potential as a means of creating value for organizations.

The decade following the 2008 financial crisis has seen ERM programs solidly embraced by boards of directors. Boards show high levels of buy-in for ERM and, broadly speaking, carry out their oversight responsibilities in support of ERM. But it is below the board level, deeper within organizations, that ERM does not have the solid foothold it should have. More management buy-in is required. This points to a need to buttress ERM team engagement and build a business case within organizations.

As our survey shows, ERM teams are small and financial resources are not optimal. This may contribute to the fact that ERM does not resonate as strongly as it should within organizations.

ERM in the financial services and insurance sectors is better resourced, and its practices are more mature. Much could be learned in other industries with less mature practices via more exchange and dialogue with their financial sector counterparts.

There is space for growth with respect to technology. Although it is not a panacea, and may not replace some of the necessary internal risk discussions and processes, technology could help build greater efficiencies in ERM.

“... It is below the board level, deeper within organizations, that ERM does not have the solid foothold it should have.”
ERM leaders identified their potential to drive business success while supporting reputational and stakeholder relations. They see the possibility of advancing toward greater integration with strategy and operations, moving from defensive risk mitigation to a more proactive stance where ERM is recognized for creating value for organizations. A barrier to making this happen remains the small number of individuals within organizations dedicated to risk management.

ERM leaders and practitioners are largely oriented to the top of the house; i.e., board and CEOs. To truly advance ERM, they will need to build on these relationships and focus on the rest of the organization. The current commitment of boards for ERM bodes well for the role they can play in advancing the case for better-resourced ERM teams with the right skills to ensure that ERM moves to the next level.

Developing more linkages between risk activities and compensation can provide the incentive required for greater organizational buy-in and commitment to ERM.

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APPENDIX A

Demographics

Chart 1

Respondent Title

(n = 166; per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.

Chart 2

What Is Your Professional Background?

(n = 166; per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.
Appendix A | The Conference Board of Canada | CPA Canada | GRI

Chart 3
Where Is Your Organization’s Head Office Located?
(n = 165; per cent)

- Canada: 93 (56%)
- Foreign country: 72 (44%)

Source: The Conference Board of Canada, CPA Canada, and GRI.

Chart 4
If Foreign Country, Which Country or Region?
(n = 6; per cent)

- United States: 33 (55%)
- Caribbean: 17 (28%)
- Europe: 17 (28%)
- Asia/Pacific: 33 (55%)

Source: The Conference Board of Canada, CPA Canada, and GRI.

Chart 5
What Is the Ownership Structure of Your Organization?
(n = 162; per cent)

- Publicly traded: 23 (14%)
- Privately held: 35 (22%)
- Co-operative: 11 (7%)
- Crown corporation: 6 (4%)
- Other: 24 (15%)

Source: The Conference Board of Canada, CPA Canada, and GRI.
**Chart 6**

What Is the Estimated Annual Revenue of Your Organization?

(n = 144; per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.

![Chart 6](chart6.png)

**Chart 7**

Please Indicate the Number of Employees Working for Your Canadian Operations

(n = 157; per cent)

Source: The Conference Board of Canada, CPA Canada, and GRI.

![Chart 7](chart7.png)
Chart 8
*Industry Sector*
(n = 163; per cent)

- Finance and Insurance: 31
- Utilities: 9
- Retail/trade: 4
- Manufacturing: 13
- Mining/oil/gas: 5
- Other: 38

Source: The Conference Board of Canada, CPA Canada, and GRI.

Chart 9
*In Which Countries/Regions Does Your Organization Operate?*
(n = 166; per cent)

- Canada: 96
- United States: 28
- Europe: 20
- Asia/Pacific: 19
- South America: 12
- Africa: 8
- Mexico: 7
- Caribbean: 5

Source: The Conference Board of Canada, CPA Canada, and GRI.
APPENDIX B

Bibliography


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